



Prudential Framework for Resolution of Stressed Assets

These directions are issued with a view to providing a framework for early recognition, reporting and time bound resolution of stressed assets.

Early identification and reporting of stress

NBFCs shall recognize incipient stress in loan accounts, immediately on default by classifying such assets as special mention accounts (SMA) as per the following categories

SMA Sub-categories	Basis for classification – Principal or interest payment or any other amount wholly or partly overdue between
SMA-0	1 – 30 days
SMA-1	31 -60 days
SMA-2	61 -90 days

In the case of revolving credit facilities like cash credit, the SMA sub-categories would be as follows

SMA Sub-categories	Basis for classification –Outstanding balance remains continuously in excess of the sanctioned limit or drawing power, whichever is lower, for a period of
SMA-1	31 -60 days
SMA-2	61 -90 days

Central Repository of Information on Large Credits

The Reserve Bank of India has set up a Central Repository of Information on Large Credits (CRILC) to collect, store and disseminate credit data to lenders. The data includes credit information on all the borrowers having aggregate fund based and non-fund based exposure of Rs.50 million and above with them and the SMA status of the borrower. The CRILC-Main Report shall be submitted as well as the Company shall submit a weekly report of instances of default by all borrowers (with aggregate exposure of Rs.50 million and above) by close of business on every Friday or the preceding working day if Friday happens to be a holiday.

Implementation of Resolution Plan (RP)

As default with any lender is a lagging indicator of financial stress faced by the borrower, it is expected that the lenders initiate the process of implementing a resolution plan (RP) even before a default. In any case, once a borrower is reported to be in default by any of the lenders, the lenders shall undertake a prima facie review of the borrower account within thirty days from such default ("Review Period"). During this Review Period of thirty days, lenders may decide on the resolution strategy, including the nature of the RP, the approach for implementation of the RP, etc. The lenders may also choose to initiate legal proceedings for insolvency or recovery.



In cases where RP is to be implemented, all lenders shall enter into an inter-creditor agreement (ICA), during the above-said Review Period, to provide for ground rules for finalisation and implementation of the RP in respect of borrowers with credit facilities from more than one lender.

Disclosures

Appropriate disclosures shall be made in the financial statements under Notes on Accounts relating to RPs implemented.

Non-cooperative borrowers

All NBFCs shall identify “non-co-operative borrowers”. A “ non-co-operative borrower” is defined as one who does not provide necessary information required by a lender to assess its financial health even after two reminders; or denies access to securities etc. as per terms of sanction or does not comply with other terms of loan agreements within stipulated period; or is hostile / indifferent / in denial mode to negotiate with the NBFC on repayment issues; or plays for time by giving false impression that some solution is on horizon; or resorts to vexatious tactics such as litigation to thwart timely resolution of the interest of the lender/s. The borrowers will be given 30 days’ notice to clarify their stand before their names are reported as non-cooperative borrowers.

Credit Risk Management

The Company should carry out independent and objective credit appraisal in all cases of lending and must not depend on credit appraisal reports of in house consultants of the borrowing entity.

At the time of credit appraisal the Company should verify as to whether the names of any of the directors of the companies appear in the list of defaulters.

Registration of transactions with CERSAI

The Company should file records of all equitable mortgages with the Central Registry of Securitisation Asset Reconstruction and the Security interest of India (CERSAI)

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V2. 03.06.20

V3. 12.03.24